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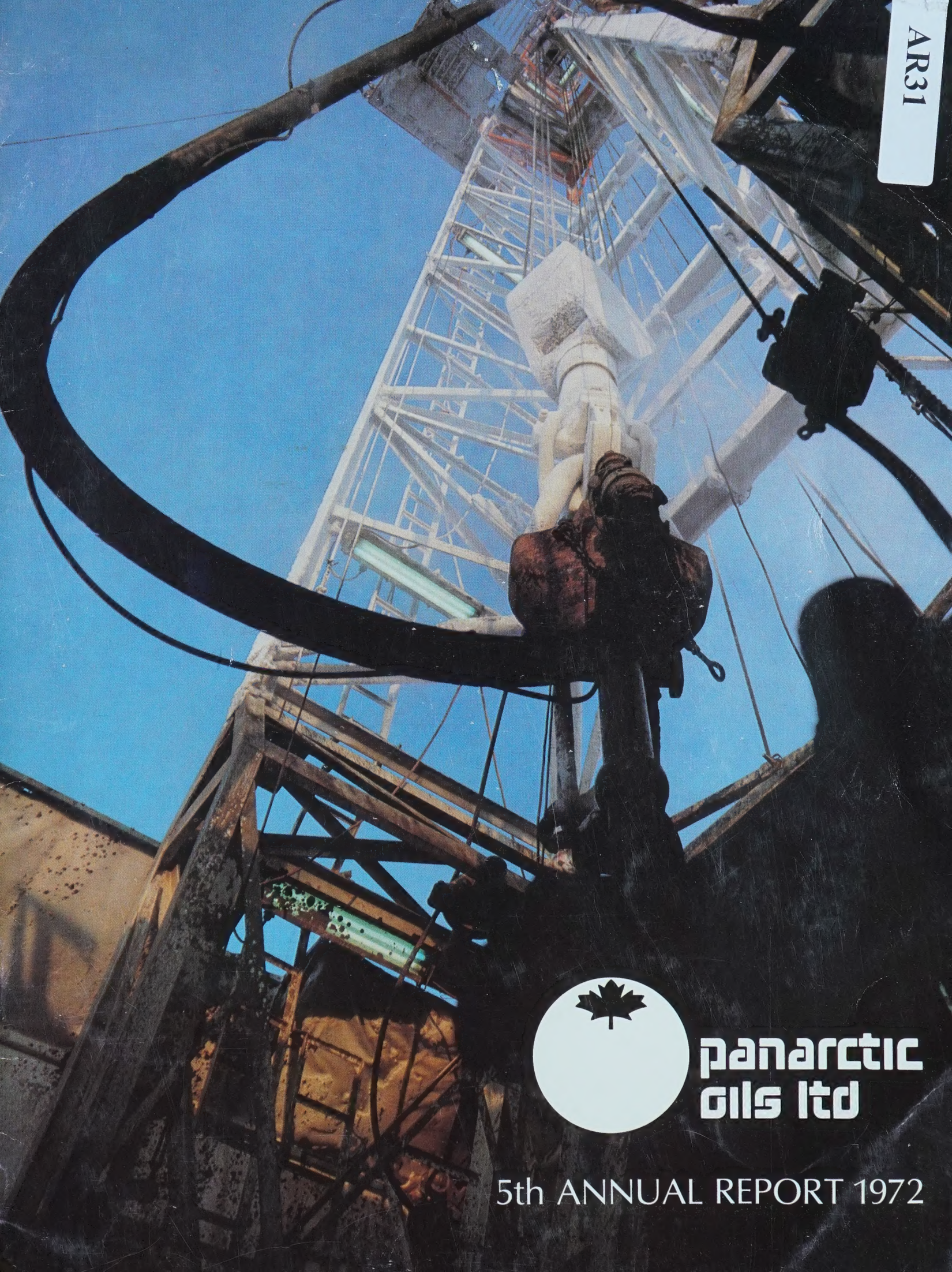

panarctic oils ltd

5th ANNUAL REPORT 1972

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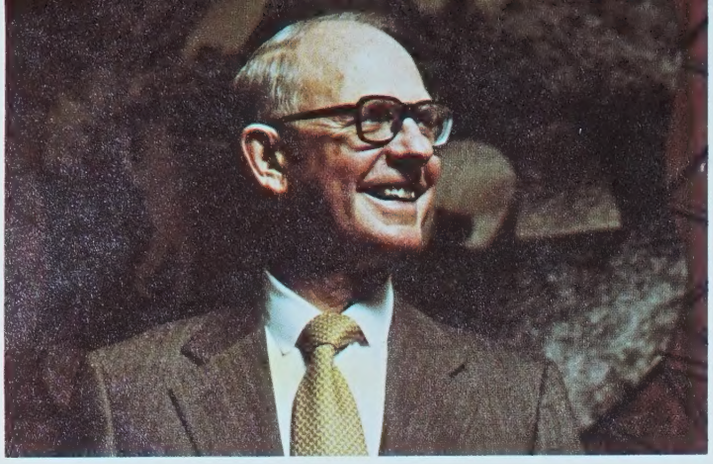
Ce rapport Annuel de Panarctic 1972 existe aussi en version française. On peut se le procurer en écrivant à Rapport Annuel Français, Box 190, Calgary.

FRONT COVER Frosted derrick, block and swivel testify to cold Arctic Islands' weather, as Rig 2 drills stepout well three miles from original Hecla gas discovery.



Chas. R. Hetherington

PRESIDENT'S REPORT

Panarctic's 1972 exploration efforts continued to yield further discoveries, and gas reserves were brought closer to the threshold volume required to support an economic outlet to market. Panarctic also continued to increase its understanding of the geologic prospects of the Canadian Arctic Islands and to improve its drilling and other field operations in this remote area.

The tempo of exploration drilling by the oil and gas industry in the Arctic Islands was increased substantially. Twenty wells were completed during 1972 and at year end, eight additional wells were drilling. All but four of these wells were on Panarctic lands. During 1972, Panarctic itself completed thirteen wells of which four were gas wells, one flowed oil on test, and one gave encouraging oil and wet gas recoveries.

Early in the year, a well drilled on the western tip of Thor Island on a geologic structure known to lie largely offshore, encountered an interesting thickness of oil-bearing sand. Additional seismograph work was done to select a follow-up well location higher up on the structure. After the close of the year, a directional well was drilled about two miles south of the discovery well so that it bottomed about one half a mile out under the ocean. This time, a pay section of several hundred feet was encountered containing a sizeable reserve of gas but without any oil.

The Kristoffer Bay well, which discovered gas on Ellef Ringnes Island in late 1971, was cased and capped as a gas well. The Romulus C-42 well on the Fosheim Peninsula of Ellesmere Island which encountered the first crude oil found in the Arctic Islands also encountered light oil and gas with condensate in two deeper zones, but, after testing, was abandoned as non-commercial at that location.

At Drake Point on the Sabine Peninsula of Melville Island two stepout wells drilled six and twelve miles respectively from the original gas discovery proved a substantial eastward extension, establishing this area as a major Arctic Islands gas reserve. The eastward limits of this field are still not delineated so that additional work will be required before the full extent of the field will be known.

Toward year end, Panarctic discovered a second gas field on the Sabine Peninsula of Melville Island at Hecla, about 30 miles west and separate from the Drake Point gas field. Much of the new field lies offshore to the west, underlying lands recently acquired by Panarctic. After year end, a stepout well was drilled a little over three miles south of the original discovery. Like the follow-up well on Thor, this well also was directionally drilled so as to bottom about half a mile out under the ocean. This well extended the southern breadth of the field, but did not establish its limits in this direction. Until offshore drilling is feasible, the western extent of the Hecla field along its crest can only be delineated by seismic interpretation. Panarctic is actively developing plans to drill from reinforced platforms on the ocean ice, using conventional drilling equipment, and may be in a position to drill an offshore well during next winter's season. Other Arctic Islands operators are investigating more sophisticated equipment including an air cushion drilling platform which could well become the offshore drilling method of the future.

The first discovery by another company in the Arctic Islands was made shortly after year end by Dome Petroleum Limited which found gas at its Wallis well on King Christian Island, further contributing toward the threshold reserve necessary for marketing. Encouraged by these successes, other companies are becoming more active in the Arctic Islands and additional discoveries can be expected through their efforts.

In addition to increased drilling activities, Panarctic expanded its field geological and particularly geophysical work, employing up to seven seismograph crews throughout the islands. This expanded program was geared to selecting the most favorable locations for future drilling.

Panarctic field operations continue to concentrate on improved drilling efficiency and improved transportation. In the past, it was considered that each drilling rig could drill two to three wells per year. By scheduling more land moves or moves over the ice, rather than air moves, drilling can be increased. It has also been learned that drilling rigs can be moved efficiently even in total darkness, providing that an advance camp is established during daylight hours and stocked with the necessary materials and supplies with which to get started. Accordingly, it is now considered that each drilling rig can drill three to four wells per year. Since the cost of Arctic drilling is in large part related to the passage of time rather than to the footage drilled, Panarctic has been able to reduce its costs per well markedly, or looking at it another way, more wells are being drilled for a given budget.

With six drilling rigs now under contract, the costs of Panarctic's aircraft, Arctic bases and other support activities will be spread over a larger number of wells, reducing allocated charges for these non-drilling items which heretofore have been a major factor contributing to high drilling costs in the Arctic.

With this expanded drilling and seismic program, a large increase in fuel and supplies was required, and 41,000 tons of these materials were successfully moved to Panarctic bases by ships in late August and early September. Last year saw the worst ice conditions recorded over the last twenty years. Nevertheless, the sealift was successfully completed, however not without some anxious moments as to whether the ships would be able to reach their Arctic destinations. Due commendation must be given to the masters of the ships involved and to the Canadian Coast Guard ice breaker service, without whose courage and perseverence this difficult operation could not have been completed.

Panarctic increased its land holdings to an interest in 78 million gross acres. A large block of land lying offshore of the Sabine Peninsula of Melville Island onto which the Hecla gas field extends was acquired prior to the drilling of the Hecla gas discovery well. Panarctic also entered into a major agreement with Elf Oil Exploration and Production Canada Limited under which it can earn an interest in 16 million gross acres of well located lands on Banks, Prince Patrick and Borden Islands in areas where Panarctic was not formerly well represented. Panarctic now holds 42 million net interest acres and has rights to earn an additional three millon net interest acres.

In November, Panarctic shareholders entered into arrangements for the expansion of the Company's capitalization by an additional $25 million of common stock. This expansion, the Company's fifth stock issue, brings total commitments by its shareholders in the Panarctic venture to $101 million and will provide funds for continuation of Panarctic's exploration program into 1974.

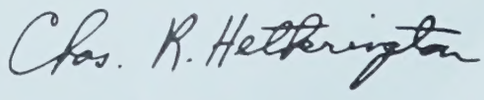
Shortly after year end, Panarctic entered into an agreement with TransCanada Pipelines Limited, Canadian Pacific Investments Limited and Tenneco Oil & Minerals Ltd. for the conduct of appropriate research, investigations and planning for a project to build a natural gas pipeline from the Canadian Arctic Islands. The undertaking is known as the Polar Gas Project. The four companies bring to the group a wealth of knowledge and expertise in gas pipeline transmission, in transportation in general and in Arctic operations.

Panarctic's enlarged program to employ Eskimos gained a year's experience and is proving to be highly successful. The Eskimos are excellent workmen, beginning to improve in both skill and job status. At the request of both the Eskimos and the Panarctic foremen, arrangements were made to increase the number of Eskimo employees by about fifty percent. Now, about twenty-five percent of Panarctic's field personnel are Eskimo.

Panarctic continued its program of controls and inspection to insure protection of the environment in which the Company operates. In addition to the Company's own procedures, Federal Government land use regulations are being strictly enforced by Government inspection.

Mr. R. J. Armstrong, Vice-President of Cominco Ltd., Executive Vice-President of Panarctic and one of the original Directors of Panarctic resigned and was replaced by Mr. G. Neeley Moore, Vice-President, Eastern Region Cominco Ltd. who in turn was replaced at year end by Mr. S. M. Rothman, Vice-President and General Manager, Production, Cominco Ltd. Mr. J. T. Wannamaker, also an original Director of Panarctic resigned and was replaced by Mr. Rupert Carleton, Vice-President, Giant Mascot Mines Limited. At the Company's sixth annual general meeting at Montreal in June 1972, the contributions of Messrs. Armstrong and Wannamaker, who were also active members of the Company's Executive Committee, were recognized.

The year under review was a year of achievement in all areas, particularly in the discovery of new reserves, in the advancement of arrangements to market gas and in improvement in the efficiency of operations. All Panarctic personnel are to be commended for their splendid performance in this year of increased activity.



March 31, 1973
Calgary, Alberta, Canada

Chas. R. Hetherington
President

Left to right: Chief Geologist D. Henao; Vice-President Exploration G. P. Crombie; Chief Geophysicist R. K. Merritt.

EXPLORATION

During the summer of 1972, a helicopter-equipped geological field party conducted stratigraphic studies on the islands of Bathurst, Cornwallis, Ellesmere, Lowther, Griffith, Baillie-Hamilton and Prince of Wales. Most of the work was directed to mapping the Devonian and older Paleozoic rocks in the Parry Islands Fold Belt, where the tempo of exploration is increasing. Panarctic also supported geological investigations conducted on Melville Island by a field party sent out by the University of Calgary.

Panarctic conducted substantial gravity programs before, or in conjunction with seismic shooting. Seismic crews completed 2153 miles of reflection and 26 miles of refraction shooting. In addition, more than 700 miles of reflection shooting were acquired by trading or by participation survey purchases. Some of the seismic work was reconnaissance coverage, but most of it was directed to defining drilling prospects. Offshore shooting on the sea-ice was important in further delineation of the Drake Point, Hecla, Thor and Kristoffer structures, all of which straddle the shoreline.

Both geological and geophysical exploration have contributed to a growing understanding of the potential carbonate reef plays in the Paleozoic section of the Parry Islands Fold Belt. At least three 1973 wildcats will explore such reef prospects.

Table 1 on page seven itemizes the wildcat drilling by all operators in the Arctic Islands in 1972. Of the 20 wells drilled to completion, two were rank wildcat gas discoveries and two more were field wildcat gas discoveries drilled on the Drake Point structure. Another at Thor Island encountered oil, and after year end, a well drilled higher on the structure proved that this accumulation is largely gas. Another well at Romulus on the Fosheim Peninsula of Ellesmere Island recovered oil in one zone and light oil and gas condensate in two other zones, but did not warrant completion.

DISCOVERIES

Panarctic Tenneco et al Kristoffer Bay G-06

Late in 1971, this well located on Ellef Ringnes Island drillstem tested gas at 10 million cubic feet per day. The well was drilled to a total depth of 12,877 feet to test possible deeper horizons.

Early in 1972, the well was plugged back and left cased as a gas well, and while no absolute open flow test was run, the drillstem test and logs indicate that this well will be highly productive.

Panarctic Tenneco et al Thor P-38

In April 1972, a drillstem test at 3870 feet in the wildcat Panarctic Tenneco et al Thor P-38 flowed a small amount of gas followed by crude oil to surface. Oil pay thickness was not sufficient to be commercial at this location, and the well was abandoned. The location was known to be on the northeastern flank of a structure culminating offshore and, since the reservoir sand is very thick, a large hydrocarbon accumulation is indicated to be present.

Following additional seismic delineation of the structure, a shoreline location was selected for a directional hole which penetrated the sand above its oil/water interface. This well was deviated some 55 degrees off vertical to bottom half a mile under the ocean. This directional well, Panarctic Tenneco et all Thor H-28 was drilled after year end and encountered a thick gas cap accumulation.

Panarctic Tenneco et al POR Drake F-16 and B-44

As mentioned in the 1971 Annual Report, the variable thickness of permafrost in the surface layer of the sedimentary sequence can distort seismic structural interpretations. This is because the velocity of seismic waves is appreciably greater in frozen rock than in unfrozen rock. It has been necessary to develop a method to eliminate this source of error. The success achieved is implicit in the results of these two wildcats drilled at the Drake Point gas field in 1972.

The correction of earlier interpretations of the Drake Point structure by elimination of permafrost velocity effects encouraged additional drilling and this resulted in the successful completion of these two gas wells which extended the gas field almost 12 miles from the original discovery. Panarctic Tenneco et al POR Drake F-16, drilled about 6 miles from the original L-67 discovery well, was completed as a gas well with an absolute open flow of 265 million cubic feet per day.

Panarctic Tenneco et al POR Drake B-44, drilled about another 6 miles beyond the F-16 well, yielded 5.5 million cubic feet per day of gas on drillstem test. No absolute open flow test was run, but the excellent permeability indicated by the test and logs suggests that the B-44 well will be more productive than the F-16 well.

Rig 1 crew makes up drill string at site of Thor gas discovery.

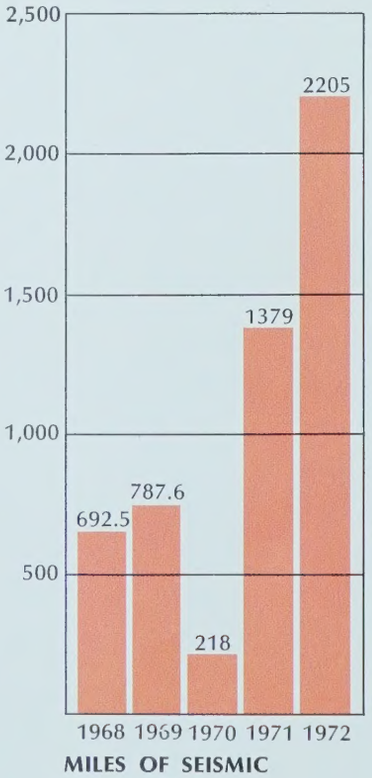
These wells confirm the structural maps drawn after correction for permafrost velocity effects, and greatly enlarge the indicated gas reserves of the Drake Point field. Further seismic work and drilling are planned for 1973 to determine the eastward extent of the field.

Panarctic Tenneco et al POR Hecla F-62

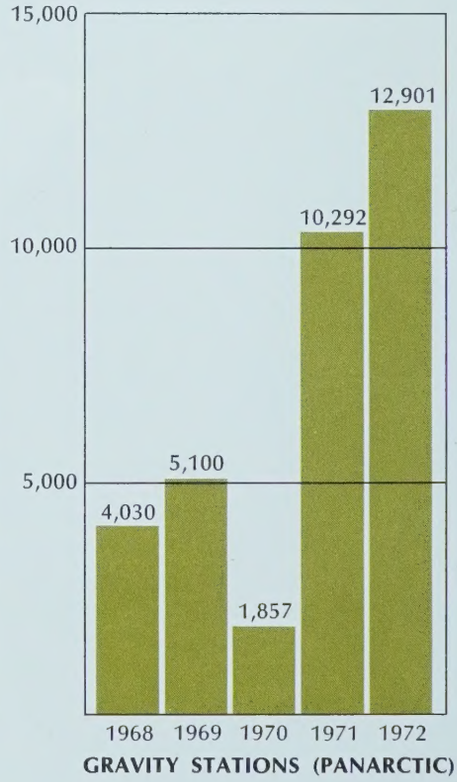
In December 1972, natural gas was discovered in this wildcat at a depth of 3160 feet. The absolute open flow potential of the well is 96 million cubic feet per day. It was flowed at rates up to 45 million cubic feet per day.

After year end, a follow up well designated as Hecla I-69 was drilled three miles to the south of the F-62 well, confirming a substantial breadth to the field. The well, however, did not establish the limits of the field in this direction. Since the field extends to the west out under the ocean, it will not be possible to delineate the westward extension of the field along its crest except by seismic interpretation until technology is developed to drill wells on the ocean ice. The Hecla I-69 well was deviated 42 degrees to bottom about one-half mile out under the ocean.

FOOTAGE DRILLED BY INDUSTRY



MILES OF SEISMIC (PANARCTIC)



GRAVITY STATIONS (PANARCTIC)

1972 ARCTIC ISLANDS' DRILLING

TABLE 1

WELL NAME	ISLAND	T.D.	STATUS April 10, 1973
Drilled by Panarctic			
Panarctic Tenneco et al Kristoffer Bay G-06	Ellef Ringnes	12,877	Capped gas well
Panarctic B.P. Skelly Tenneco et al Brock C-50	Brock	12,996	D & A
Panarctic Gulf W. Amund I-44	Amund Ringnes	3,137	D & A
Panarctic Tenneco et al Thor P-38	Thor	6,000	Non-commercial oil
Panarctic Gulf Dumbbells E-49	Ellef Ringnes	11,184	D & A
Panarctic Tenneco et al POR Drake F-16	Melville	4,850	Capped gas well
Panarctic Brock I-20	Brock	10,422	D & A
Panarctic Dome Tenneco et al Dome Bay P-36	Ellef Ringnes	8,050	D & A
Panarctic Romulus C-42	Ellesmere	14,942	Non-commercial oil and gas
Panarctic Tenneco et al POR Drake B-44	Melville	4,580	Capped gas well
Panarctic Noice G-44	Ellef Ringnes	5,791	D & A
Panarctic Gulf Helicopter J-12	Ellef Ringnes	12,512	D & A
Panarctic Tenneco et al POR Hecla F-62	Melville	4,000	Capped gas discovery
Panarctic Dome Dundas C-80	Melville	13,122	D & A
Panarctic Dome Tenneco et al Louise 0-25	Ellef Ringnes	7,483	D & A
Panarctic Gemini E-10	Ellesmere	12,614	D & A
Panarctic Tenneco et al Pollux G-60	Ellef Ringnes	11,249	Abandoned
Panarctic Tenneco et al Hecla I-69	Melville	4,000	Gas well
Panarctic Tenneco et al Thor H-28	Thor	5,760	Gas discovery
Drilled by Farmees on Panarctic Lands			
Sun Panarctic Russell E-82	Russell	6,020	D & A
Imperial IOE Panarctic et al Devon E-45	Devon	6,030	D & A
BP et al Panarctic Satellite F-68	Prince Patrick	12,075	D & A
Imperial Panarctic Dome et al Hoodoo L-41	Ellef Ringnes	14,040	D & A
BP et al Panarctic Emerald K-33	Emerald	12,010	Drilling
Horn R. Panarctic et al Depot Point L-24	Axel Heiberg	14,000	Drilling
Imperial Panarctic et al Mokka A-02	Axel Heiberg	10,827	Drilling
Other Wells Drilled in the Arctic Islands			
Elf Nanuk D-76	Banks	4,518	D & A
Elf Uminmak H-07	Banks	5,573	D & A
BP et al Graham C-52	Graham	10,100	D & A
Dome Arctic Ventures Wallis K-62	King Christian	8,625	Gas discovery

Left to right: Drilling Manager A. E. Gates; Transportation Manager K. G. Alexander; Vice-President Operations H. J. Strain.

OPERATIONS

The Operations Division had a good year in 1972. Five drilling rigs were under contract for most of the year compared to four rigs in 1971. Feet of hole drilled more than doubled from 63,000 to 128,000 feet. The most significant development, however, was the cutting of rig-move costs by moving drilling rigs over land and sea ice by truck. In former years most moving had to be done by the use of Hercules aircraft.

DRILLING

Compared to drilling in southern Canada or the Mackenzie Delta, Panarctic's field operations in the Arctic Islands have always been characterized by high rig utilization. By stockpiling ahead of time and drilling through the short Arctic summer, many rigs can be operated 365 days of the year. Historically the five rigs under contract to the Company have operated between 82% and 100% of the time. (See Table 2.) Rig 2 drilled five wells, Rig 1 drilled four wells while the remaining three rigs drilled two deep wells each.

COMMONWEALTH HI-TOWER RIG No. 1

This was the first rig contracted by Panarctic. It moved in and spudded the Drake Point discovery well in April, 1969. By April, 1973, this rig had drilled over 100,000 feet of hole in the Canadian Arctic Islands. A plaque, in commendation of four years' continuous and record service, was recently presented to the Toolpushers and crews by Panarctic.

The specialized design of this Arctic rig, which is capable of drilling 12,000 to 14,000 feet, has proven out over the years. Both rig and camp are designed for fast, economical moving by either Hercules aircraft or truck. Most newer Arctic rigs have, with some improvements, adopted features of the original Rig 1 design. Nevertheless, Rig 1 has established several drilling and rig-move records which are yet to be beaten. The steadily increasing footage per operating day at Rig 1 (Table 3) typifies the manner in which Panarctic's four years of accumulated experience has improved operations.

OVERLAND MOVES

During the first three years, wildcat drilling often involved moving rigs 100 to 200 miles between islands, making transportation by Hercules aircraft the only practical method. By the end of 1971, the technique of moving large drilling rigs had become exceptionally efficient with loads planned and packaged in advance to minimize aircraft delay.

An Arctic Island's record for moving a large rig was set in December 1971, when a complete drilling rig and support equipment comprising 76 loads was moved by one Hercules aircraft in just 11 days. Despite all efficiencies the cost was still high due primarily to the expense of chartering the aircraft.

A breakthrough in the economies of re-locating rigs came in 1972 when the wildcat program called for a number of wells to be drilled within overland moving distance of one another. Ten rig moves, made in this manner using conventional trucks, saved the Company in excess of a million dollars. One 40-mile overland move was made in January during complete darkness with temperatures hovering at 50 degrees below zero. High winds and blizzard conditions shut down the move for three days but the bulk of the rig was moved in less than three weeks using five radio-equipped oilfield trucks.

Comm-Hi Rig 1, referred to earlier, was moved overland on five occasions during the past year. The first time was in March, across five miles of ocean ice, from the Kristoffer Bay gas field to Thor Island. The last time was in February, 1973, from Louise 0-25 to Thor H-28. (See Map on Page 10.) This was the longest overland move yet undertaken in the Arctic Islands, a distance of 70 miles. The move covered 55 miles on land ending with 15 miles over ocean ice from Ellef Ringnes to Thor Island. Normally four or five trucks were used on these moves supported by two tractors and one grader for road maintenance and ploughing drifting snow.

Hauling over the ocean at this time of year was not hazardous as the ice was seven feet thick. In fact, the smooth ocean ice made the best road surface allowing the loaded trucks to travel at speeds up to 50 mph. Conditions were rougher on land.

Depending on distance, weather and number of trucks available, moving time was usually one to two weeks. Rigging down normally took three or four days and rigging up about one week. Including rig down, move

In 1972, many rig moves formerly handled by Hercules aircraft were made over land and ocean ice using conventional trucks, at a saving of more than a million dollars.

Part of 9000 tons of dry cargo unloaded at Rea Point during 1972 sealift. A record 41,000 tons of fuel and supplies was delivered to Panarctic bases.

and rig up, the fastest completion was fourteen days between rig release date at Thor P-38 and spud in date at Dome Bay P-36.

SEALIFT

During late August and early September, 1972, despite the heaviest ice conditions in twenty years, the oil industry shipped 115,000 tons of fuel and supplies to four major staging bases. This included the delivery by other operators of two new drilling rigs to Axel Heiberg Island and one drilling rig to Banks Island. Panarctic's share of this oil industry sealift was 41,000 tons or about twice the quantity landed in 1971. The Company's sealift tonnage included 15,000 tons of fuel and 9,000 tons of dry cargo to Rea Point; 5,000 tons to Eureka and 400 tons to Banks Island. The remaining 12,000 tons was handled on consignment, by Imperial Oil and Cardwell Supply, to Resolute Bay. The highlight of Panarctic's 1972 sealift was the record set by unloading crews at Rea Point who offloaded 7,000 tons of dry cargo from the freighter MV Cabot in just four days.

COMPANY AIRCRAFT

Improved utilization of the two De Havilland Twin Otters was reflected by a continued reduction in operating costs per hour and per mile. Flying increased from 3,050 hours in 1971 to 3,900 hours in 1972.

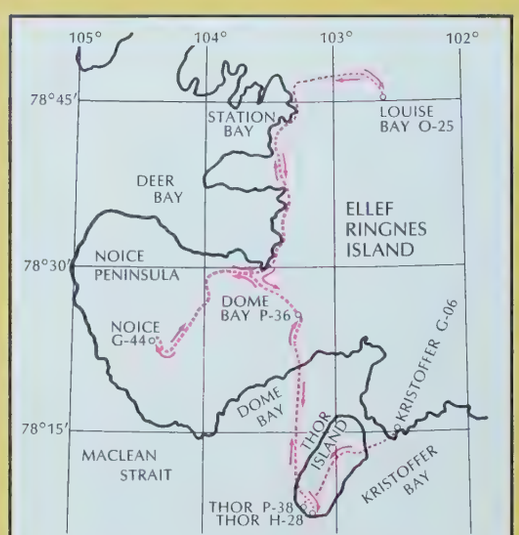
A marked decrease in operating costs was also achieved with the Lockheed Electra, which completed its first year of service using Company flight crews. In the two years previously, it had been leased and flown with contracted crews. The Electra was busy most of the year commuting between the Arctic Islands and Alberta effecting crew changes and light freight resupply. The Electra flew

RIG UTILIZATION SUMMARY 1969 – 1972 TABLE 2

	Rig 1	Rig 2	Rig 3	Rig 4	Rig 7
otal contract days	1,430	1,371	1,017	676	398
Operating days	916	623	647	534	290
Moving and rigging days	321	393	229	85	86
Average moving and rigging time between wells (days)	29	35	35	28	29
Standby with crew, completion, repairs, etc. (days)	132	115	71	21	22
Standby without crew (days)	61	240	70	36	—
Number of wells drilled	11	11	6	3	2
Deepest well drilled (feet)	12,877	6,895	12,996	14,940	12,512
Footage per operating day	101	82	92	72	85
Total footage drilled	92,888	51,282	59,544	38,448	24,694
Percent rig utilization	96%	82%	93%	95%	100%

RIG 1 UTILIZATION SUMMARY 1969 – 1972 TABLE 3

	1969	1970	1971	1972
Total contract days	334	365	365	366
Operating days	186	253	237	240
Moving and rigging days	82	60	92	87
Average moving and rigging time between wells (days)	19	30	46	22
Standby with crew, completion, repairs, etc. (days)	52	52	3	25
Standby without crew (days)	14	—	33	14
Number of wells drilled	2	2	2	5
Deepest well drilled (feet)	8,454	11,865	11,030	12,877
Footage per operating day	97	70	105	135
Total footage drilled	18,035	17,612	24,877	32,364
Percent rig utilization	99%	100%	91%	96%



COMM - HI RIG No. 1

Well	Spud Date	Rig Release Date	Moving & Rigging Days	Distance (Miles)
KRISTOFFER G-06	—	Mar. 17	—	
THOR P-38	April 6	May 9	19	15
DOME BAY P-36	May 23	July 18	14	20
NOICE G-44	Sept. 27	Oct. 29	26	25
LOUISE O-25	Nov. 23	Feb. 4	24	60
THOR H-28	Feb. 28		24	70

Rig 1 has made five overland and over-ice moves during the past year in contrast to mainly Hercules air moves made during its first three years of operation.

Panarctic's Rea Point bladder farm receives 3.8 million gallons of fuel from sealift. A total of seven million gallons was delivered to Panarctic locations.

2,400 hours in 1972 compared to 1,900 hours in 1971. A total of 10,836 passengers and 2,762 tons of freight was carried during 1972 as against 7,350 passengers and 2,100 tons of freight in 1971.

CONTRACT AIRCRAFT

The heavy hauling of large rig components, fuel, casing and drilling supplies cannot be handled by Company aircraft. Lockheed Hercules aircraft, chartered from Pacific Western Airlines, do the bulk of this work.

In spite of increasing activity each year, the introduction of the short overland rig move has kept Panarctic's Hercules requirements at a fairly constant level. For example, in 1972 Hercules hours flown were 2,400 compared to 2,100 hours in 1971. In addition, approximately 810 hours of chartered DC-3 time and 660 hours of chartered Twin Otter time were flown.

MOBILE EQUIPMENT

In 1972, to take full advantage of the economies offered by re-locating rigs via land and ocean ice, Panarctic enlarged its fleet of mobile equipment. This fleet, composed of forklifts, Caterpillar tractors, trucks, crew cab pickups, cranes and motor graders, was also kept busy on many other phases of operations. Some of the principal functions were unloading ships during sealift, unloading aircraft, moving supplies both at Rea Point and drilling sites, lease and airstrip construction at new drilling sites, hauling water, fuel and supplies during drilling, rigging down and rigging up. Having a sufficient quantity of this type of support equipment has been a major factor in allowing the Company to make significant savings in 1972, mainly in the area of reduced rig-move costs.

Panarctic's freight/passenger Electra aircraft loads at Rea Point main base. Well equipped radio room monitors all flights and dispenses weather information.

Left to right: Chief Landman T. C. Stitt;
Company Solicitor W. G. Holt;
Vice-President Land and Administration R. G. S. Currie.

LAND AND ADMINISTRATION

Panarctic's drilling obligations under the thirty "original" farmin agreements, negotiated at the time of Panarctic's incorporation, have now been satisfied with the result that the Company has acquired all of the acreage originally committed to it. Options still exist under the original agreement whereby the Company may earn an additional 867,236 acres by the drilling of five wells, one of which is currently nearing completion at Depot Point. As a result of the successful completion of the obligatory drilling program, Panarctic is now operator in joint operations on 45 million gross permit acres. Each of the above-mentioned agreements includes from one to sixteen participants. Each of these partners must now be contacted and consulted with respect to all operations on the jointly held permits. This necessitates Panarctic's involvement with more than 60 other companies.

Between September 1969 and December 1971, Panarctic had negotiated six substantial farmout agreements with Sunoco E & P Limited, BPOG Operations Ltd., Deminex (Canada) Limited, Imperial Oil Limited, Gulf Oil Canada Limited and Total Leonard, Inc. et al, to assist in satisfying its obligations and evaluating its acreage. These agreements required approximately 1,300 miles of seismograph surveys and a possible total of 21 exploratory wells. Up to March 31, 1973, 1,150 miles of the required seismic had been completed and 16 of the exploratory wells had been drilled. These 16 wells represent better than 150,000 feet of drilling at an estimated cost to the farmees of $36 million. In addition to these wells, others at Mokka and Depot Point are currently being drilled at an estimated total cost of $8.5 million.

In view of the early expiry of some 20 million gross acres of Panarctic's permits, the necessity of evaluating these lands as rapidly and as prudently as possible required that farmouts as an exploratory tool, be utilized to even greater extent. During this reporting period, six more farmouts were negotiated with others, as follows: Gulf Oil Canada Limited at Geologist's Anticline on Amund Ringnes Island; Imperial Oil Limited at East Amund also on Amund Ringnes Island; Canada-Cities Service, Ltd. at May Point on Axel Heiberg Island; Atlantic Richfield Company at Stenkul Fiord on Ellesmere Island southeast of Bjorne Peninsula; Canadian Homestead Oils Limited at North Sabine Peninsula on Melville Island and Canadian Reserve Oil and Gas Ltd. at Dundas Peninsula on Melville Island. In most instances seismic shooting is a prerequisite. The companies involved also agreed to undertake four exploratory tests, one of which has already been completed at the date of this report. While some of these farmouts have followed the more conventional form, Panarctic has achieved considerable success by taking partners into selected areas on a premium basis under its own drilling program. It is anticipated that these new agreements will result in expenditure of at least $6.5 million for exploratory evaluation including varying amounts of seismic.

To date the total number of net permit acres committed out by Panarctic under all of its farmout agreements amounts to approximately 8% of the total net permit acres that Panarctic has already earned. Exploratory funds generated by use of farmouts may exceed $62 million. In addition to this, there is a possibility that if all options are exercised, the monies expended on Panarctic lands by farmees could be increased by a further $18.5 million to a total of $80.5 million. These funds, designated to be spent on evaluating specific prospects in concentrated areas will allow Panarctic to proceed with its own exploratory program on the remaining 92% of its holdings.

In order to improve its general acreage position and obtain a better coverage in the western side of the Canadian Arctic Islands, the Company in concert with others negotiated a farmin agreement with Elf Exploration and Production Canada Limited. Of the 16.1 million gross permit acres subject to this exploratory earning agreement, Elf's net position is 11.9 million acres. Panarctic can, by exercising a series of options, earn a 15% working interest in this 11.9 million permit acres with the Company's net acreage position consequently being increased by another 1.7 million net permit acres.

After a careful study, Panarctic surrendered to its original farmor some 309,632 gross permit acres on Melville Island.

Panarctic has acquired since inception 11.2 million gross permit acres in which it owns 100% working interest for its own account. Many of the permits so acquired, due to provisions of the original farmin agreements, had to be offered to the original farmor. In specific instances where wholly owned acreage fell within the "area of mutual interest", the farmor had the right to acquire a proportionate share of such acreage by paying a proportionate share of acquisition cost. Owing to this obligation, a reduction of some 268,000 acres of Panarctic's wholly owned lands occurred and consequently the

ACREAGE COMMITTED TO PANARCTIC

ORIGINAL AGREEMENTS	Gross Acreage Committed	Net Acres Earned To Date	Net Acres Farmed Out	Net Remaining After F.O.	Net Still Earnable	Percentage Earned
Acroll Oil & Gas Ltd. (3 Agreements)	352,569	352,569	—	352,569	—	100%
Alminex Limited	1,986,821	1,688,798	40,438	1,648,360	—	85%
Ashland Oil Canada Limited	1,316,546	1,053,237	23,249	1,029,988	—	80%
Bankeno Mines Limited & Cominco Ltd.	3,637,778	2,910,222	102,058	2,808,164	—	80%
Bankeno Mines Limited & Cominco Ltd. et al	1,920,933	1,536,746	—	1,536,746	—	80%
BP Exploration Canada Limited	3,297,359	2,637,887	109,038	2,528,849	—	80%
Canada Southern Petroleum Ltd.	709,135	567,308	31,272	536,036	—	80%
Canada Southern Petroleum Ltd. and BP Exploration Canada Limited	62,650	50,120	—	50,120	—	80%
Canada Southern Petroleum Ltd., Clark Oil Producing, Ltd. and Skelly Oil Canada Ltd.	57,210	45,768	—	45,768	—	80%
Canadian Homestead Oils Limited	1,225,652	1,041,804	13,224	1,028,580	—	85%
Canadian Industrial Gas & Oil Ltd.	822,701	699,296	26,702	672,594	—	85%
Candian-Montana Gas Company Limited	495,397	396,318	—	396,318	—	80%
Consumer's Co-operative Refineries Limited	1,482,542	1,260,161	25,963	1,234,198	—	85%
Dome Petroleum Limited	2,307,100 (a)	1,153,550	55,562	1,097,988	—	50%
Domex Group	4,030,392	3,022,794	1,813,329	1,209,465	—	75%
Elf Oil Exploration and Production Canada Ltd.	2,327,186	1,861,749	186,090	1,675,659	—	80%
Francana Oil & Gas Ltd.	1,779,244	1,512,357	50,703	1,461,654	—	85%
Great Plains Oil & Gas Ltd. et al	3,863,354	1,262,291	356,475	905,816	867,236 (b)	50-66.6%
Lassiter Kuma Oils Ltd.	722,637	650,373	9,580	640,793	—	90%
Norpet Oil & Gas Ltd.	449,365	381,960	27,459	354,501	—	85%
Northwest Gas & Oil Exploration Co.	85,490	85,490	—	85,490	—	100%
Pembina Pipe Line Ltd.	660,981	528,785	8,993	519,792	—	80%
Plains Petroleums Limited et al	1,303,875	873,596	26,328	847,268	—	67%
Prairie Oil Royalties Company, Ltd.	1,526,212	1,182,814	195,024	987,790	—	77.5%
Standard Oil Company of British Columbia Limited Thouvenelle, B.E. (c)	960,084	160,017	—	160,017	—	16.7%
Triceetee Group	3,687,094	2,949,675	427,804	2,521,871	—	80%
United Canso Oil & Gas Ltd.	2,783,727	1,997,550	76,822	1,920,728	—	66.6-80%
Western Minerals Ltd.	792,620	713,358	60,073	653,285	—	90%
SUB TOTAL	44,646,654	32,576,593	3,666,186	28,910,407	867,236	
SUBSEQUENT ACQUISITIONS						
Acroll Oil & Gas Ltd.	60,749	23,540	—	23,540	—	
Amoco Canada Petroleum Company Ltd.	746,734	—	—	—	373,367	
Axel Heiberg Oil Company et al	50,831	12,708	—	12,708	—	
Canada Southern Petroleum Ltd.	3,650,607	1,825,303	—	1,825,303	—	
Canadian Homestead Oils Limited	30,420	14,046	—	14,046	—	
Canadian Homestead Oils Limited	30,057	—	—	—	2,329	
Drillarctic Group	159,671	—	—	—	11,576	
Elfex	16,106,686 (d)	—	—	—	1,789,953	
Magnorth Petroleum Ltd.	405,707	—	—	—	108,799	
Pan Ocean (Canada) Ltd.	1,294,139	538,830	—	538,830	—	
Zorayda Oil Co. Ltd.	40,529	10,132	—	10,132	—	
Panarctic Oils Ltd. wholly owned lands	11,217,713	10,949,603 (e)	129,039	10,820,564	—	
SUB TOTAL	33,793,843	13,374,162	129,039	13,245,123	2,286,024	
TOTAL	78,440,497 (f) (g)	45,950,755 (h)	3,795,225	42,155,530	3,153,260	

(a) 309,632 gross acres relinquished to Dome without earning — Sabine Peninsula.

(b) Earning well currently drilling on South Eureka Block by Drillarctic to earn a net 130,075 acres (47,258 acres for Farmee and 82,816 acres for Panarctic).

(c) Panarctic acquired the interest of Thouvenelle — total acreage now classified as "wholly owned".

(d) Acreage totals supplied by Elf.

(e) Reduced by 268,109 acres due to acquisition of proportionate interests by various Farmors under "Area of Mutual Interest" obligations.

(f) Includes 231,640 acres being converted to Lease.

(g) Reduced by 143,369 gross acres from last report by election not to exercise the Sunoco option at Russell Island.

(h) Subject to 10% Net Profits Interest.

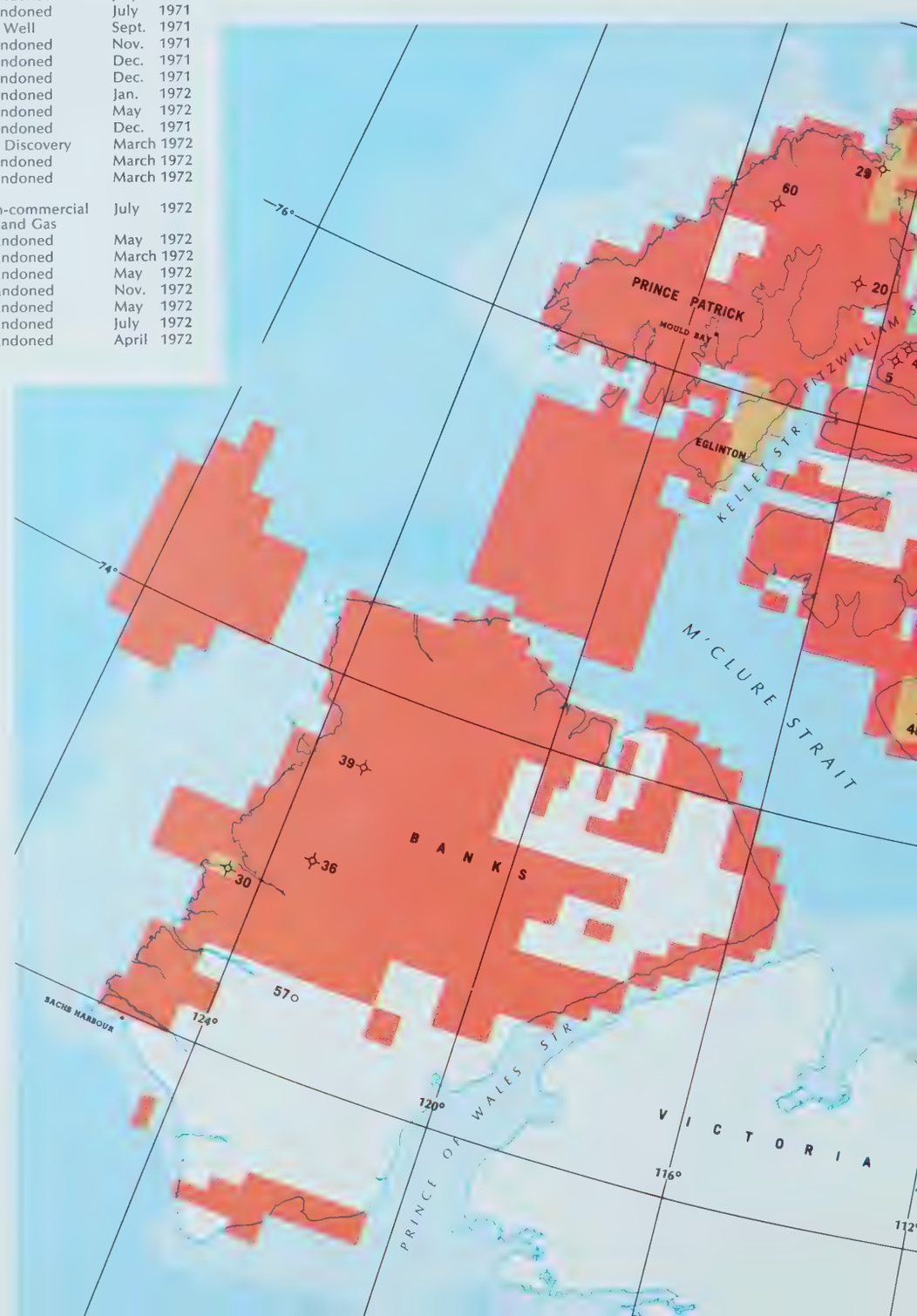
* NOTE: Due to Department of Indian and Northern Affairs removing all 0.5 acres from Permits there are minor acreage changes throughout.

INDUSTRY DRILLING IN THE ARCTIC ISLANDS

	Well Name	Depth	Status	R.R. Date
1	Dome et al Winter Harbour #1	12,541′	Abandoned	April 1962
2	Lobitos et al Cornwallis Resolute B. L-41	4,841′	Abandoned	Dec. 1963
3	Dominion Explorers Canso et al Bathurst Cale. J-34	10,000′	Abandoned	Feb. 1964
4	Panarctic Sandy Point L-46	6,895′	Abandoned	July 1969
5	Panarctic Marie Bay D-02	4,175′	Abandoned	Sept. 1969
6	Panarctic Drake Point N-67 (Formerly L-67)	8,454′	Gas Discovery Blew wild Killed by K-67	July 1969 Sept. 1970
7	Panarctic Drake Point L-67 (Formerly K-67A)	10,671′	Gas Discovery	Nov. 1969
8	Panarctic Drake Point L-67A Plugged back directional relief well (Formerly K-67A directional)	3,966′	Relief hole unsuccessful now capped gas well	May 1970
9	Panarctic Drake Point K-67	3,198′	Relief hole killed Abandoned	Nov. 1970
10	Panarctic Towson Point F-63 (Formerly G-63)	5,123′	Abandoned	June 1970
11	Elf Cape Norem A-80	9,744′	Abandoned	Aug. 1970
12	Panarctic Hoodoo-Dome H-37 (Formerly F-27)	11,072′	Abandoned	Aug. 1970
13	Panarctic Homestead Hecla J-60	11,864′	Abandoned	Sept. 1970
14	Panarctic King Christian D-18	2,010′	Gas Discovery Killed by D-18A and Abandoned	Oct. 1970 Jan. 1971
15	Panarctic King Christian D-18A Directional relief and evaluation well	2,779′	Completed as Capped Gas Well	March 1971
16	Elf Wilkins E-60	11,140′	Abandoned	Jan. 1971
17	Sun K.R. Panarctic Kitson R. C-71	9,075′	Abandoned	Feb. 1971
18	Panarctic Amund Central Dome H-40	11,030′	Abandoned	April 1971
19	Sun K.R. Panarctic Allison R. N-12	11,761′	Abandoned	March 1971
20	Elf Jameson Bay C-31	8,327′	Abandoned	May 1971
21	Panarctic Deminex Cornwallis Central Dome K-40	10,052′	Abandoned	Aug. 1971
22	Panarctic Deminex Garnier O-21	6,515′	Abandoned	July 1971
23	Sun Panarctic Young Inlet D-21	6,058′	Abandoned	July 1971
24	Panarctic King Christian N-06	11,020′	Gas Well	Sept. 1971
25	Sun K.R. Panarctic Skybattle Bay C-15	12,000′	Abandoned	Nov. 1971
26	Panarctic Fosheim N-27	14,022′	Abandoned	Dec. 1971
27	BP et al Panarctic Hotspur J-20	12,584′	Abandoned	Dec. 1971
28	Sun Panarctic Russell E-82	6,020′	Abandoned	Jan. 1972
29	BP et al Panarctic Satellite F-68	12,075′	Abandoned	May 1972
30	Elf et al Storkerson Bay A-15	6,719′	Abandoned	Dec. 1971
31	Panarctic Tenneco et al Kristoffer Bay G-06	12,877′	Gas Discovery	March 1972
32	Imp. IOE Panarctic et al Devon E-45	6,030′	Abandoned	March 1972
33	Panarctic BP Skelly Tenneco et al Brock C-50	12,996′	Abandoned	March 1972
34	Panarctic Romulus C-42	14,940′	Non-commercial Oil and Gas	July 1972
35	Panarctic Gulf Dumbbells E-49	11,182′	Abandoned	May 1972
36	Elf Nanuk D-76	4,518′	Abandoned	March 1972
37	BP et al Graham C-52	10,100′	Abandoned	May 1972
38	Panarctic Gulf Helicopter J-12	12,512′	Abandoned	Nov. 1972
39	Elf Uminmak H-07	5,573′	Abandoned	May 1972
40	Imp Panarctic Dome et al Hoodoo L-41	14,040′	Abandoned	July 1972
41	Panarctic Gulf West Amund I-44	3,137′	Abandoned	April 1972

	Well Name	Depth	Status	R.R. Date
42	Panarctic Tenneco et al Thor P-38	6,000′	Oil Discovery	May 1972
43	Panarctic Brock I-20	10,422′	Abandoned	June 1972
44	Panarctic Tenneco et al POR Drake Point F-16	4,850′	Gas Well	June 1972
45	Panarctic Dome Tenneco et al Dome Bay P-36	8,050′	Abandoned	July 1972
46	Panarctic Tenneco et al POR Drake B-44	4,580′	Gas Well	Oct. 1972
47	Panarctic Noice G-44	5,791′	Abandoned	Oct. 1972
48	Panarctic Dome Dundas C-80	13,122′	Abandoned	Jan. 1973
49	Panarctic Gemini E-10	12,614′	Abandoned	March 1973
50	Horn R. Panarctic et al Depot Point L-24		Drilling	
51	Imp. Panarctic et al Mokka A-02		Drilling	
52	BP et al Panarctic Emerald K-33		Drilling	
53	Panarctic Tenneco et al POR Hecla F-62	4,000′	Gas Discovery	Dec. 1972
54	Sun Gulf Global Linckens Island P-46		Drilling	
55	Panarctic Dome Tenneco et al Louise O-25	7,483′	Abandoned	Feb. 1973
56	Horn River CCS Getty Mid Fiord K-52		Location	
57	Deminex CGDC Amoco Orksut I-44		Drilling	
58	Panarctic Tenneco et al Pollux G-60	11,249′	Abandoned	March 1973
59	Dome Arctic Ventures Wallis K-62	8,625′	Gas Discovery	
60	Elf Intrepid Inlet H-49		Abandoned	March 1973
61	Panarctic Eldridge Bay E-79		Drilling	
	Panarctic Tenneco et al Hecla I-69	4,000′	Gas Well	March 1973
63	Panarctic Tenneco et al Thor H-28	5,760′	Gas Discovery	April 1973
64	Dome Arctic Ventures Sutherland O-23		Location	
65	Panarctic Cape Isachsen J-37		Location	
66	Panarctic Halcyon O-16		Location	
67	Panarctic Apollo C-73		Location	
68	Panarctic Zeus		Location	
69	Imp. Panarctic Union PPL E. Amund M-05		Location	
70	Panarctic May Point		Location	
71	Panarctic Homestead Drake Point J-78		Location	
72	Panarctic et al Drake A-78		Location	

CANADIAN ARCTIC ISLANDS



PANARCTIC HOLDINGS

PANARCTIC FARMED OUT

- Location/Drilling
- Oil Well
- Gas Well
- Abandoned

SEA LEVEL
200 METRES
500 METRES

50 40 30 20 10 0 50
SCALE IN MILES

NANSEN SD
GRINNELL FJORD
EUREKA
Fosheim Pen.
SVERDRUP CHAN
MEIGHEN
AXEL HEIBERG
PEARY CHANNEL
MASSEY SOUND
HAIG THOMAS
ELLEF RINGNES
AMUND RINGNES
ISACHSEN
MALLOCK DOME
BORDEN
PRINCE GUSTAF ADOLF SEA
WILKINS STR
BROCK
MACKENZIE
KING
KING CHRISTIAN
MACLEAN STR
NORWEGIAN BAY
Bjorne Pen
CORNWALL
GRAHAM
BELCHER CHANNEL
LOUGHEED
HAZEN STRAIT
N. KENT
Grinnel Pen.
PENNY STR
CAMERON
VANIER
Sabine Pen.
6 TO 9
HECLA AND GRIPER BAY
BYAM MARTIN CHANNEL
JONES SOUND
BATHURST
MELVILLE
REA POINT
BYAM CHAN
AUSTIN CHAN
BYAM MARTIN
CORNWALLIS
RESOLUTE
WELLINGTON CHANNEL
DEVON
LOWTHER
GRIFFITH
BARROW STRAIT
MOUNT MELVILLE SOUND
RUSSELL
SOMERSET
STEFANSSON
HADLEY BAY
M'CLINTOCK CHANNEL
PEEL SOUND
PRINCE OF WALES
PRINCE REGENT INLET
Storkerson Pen.
80°
84°
88°
92°
96°
100°
104°
108°
112°
116°

The Canadian Arctic Archipelago is one of the world's last great frontiers. Its frigid, desertlike islands reach to within a few hundred miles of the Pole supporting only sparse and scattered animal and plant life.

wholly owned acreage figure is reduced from 11.2 million to 10.9 million gross acres. This included certain other minor adjustments that took place due, in some instances, to the conversion privileges contained in some of the original farmout agreements and due, in other cases, to receipt of a final accurate definition from the Government of Canada as to exactly how much acreage each individual permit contained.

A substantial revision of the Canada Oil and Gas Regulations governing the Company's acreage has been undertaken by the Government of Canada. This revision has been under consideration for better than three years. In order to avail itself of what must be considered to be the more favourable provisions of the existing Regulations, the Company undertook to convert 231,640 gross permit acres to lease. Petroleum and natural gas leases were selected from exploratory permits at Drake Point on Melville Island, at Thor Island and at King Christian Island during 1972.

As at March 31, 1973 the gross permit acres in which Panarctic has or may earn an interest stood at 78.4 million acres, up from 60.4 million the previous year. The Company's net position in these permit lands could lead to holdings amounting to 49.1 million permit acres, which figure includes a net 3.8 million subject to farmout agreements. Net permit acres totalling 45.9 million have either been acquired outright or have been earned by Panarctic at this time.

LANDS SUBJECT TO FARMIN AGREEMENT WITH ELF EXPLORATION AND PRODUCTION CANADA LIMITED.

ENVIRONMENTAL REVIEW

Panarctic's administrative and technical staff continued to meet with Government and representatives of northern communities on environmental matters. In addition to aiding the efforts of other groups, the Company carried on its own environmental and research programs to guard against both physical and aesthetic damage to the various ecosystems found in the Arctic. During the past year, the environmental task force, formed in 1971, continued to inspect the Company's operations with the objectives of preventing excessive disturbance and restoring drilling sites after abandonment.

An experimental protection and reclamation project was established at the Company's main base at Rea Point. An attempt was made to grow native and other grasses in various combinations, the intent being to provide a reclamation cover for disturbed areas. The results to date have not been very encouraging. The soil suffers from a paucity of nutrient minerals and even those areas which have been fertilizer treated have not responded positively. Experimentation will be continued in 1973.

To further minimize the possibility of ecological harm, Panarctic has devised special waste and garbage control procedures and has upgraded many of its facilities. Fuel-fired incinerators are in use at Rea Point and at each drilling site to lessen any chance of pollution, and leave exploration areas in a clean condition.

Panarctic is making every effort to ensure that its operations in the High Arctic do minimal damage to the

terrain and ecological balance of nature. It is the Company's policy to continue stressing environmental consideration, protection, clean-up, research and improvement of operational procedures.

PERSONNEL

The efficiency and competence of the Company's 242 employees is exemplified by the fact that during the period under review there were no major lost-time accidents to Panarctic personnel. One hundred and fifty of the Company's staff are engaged in Arctic field operations or air transportation, thereby directly facing the rigours of Arctic Island operations.

All personnel involved in the North have completed Arctic survival courses. A continuing program of industrial first-aid training for northern personnel has resulted in increased security for the operations people. Special courses organized in conjunction with the University of Calgary have been underway for the training of radio operators as weather observers.

In December of 1971 the Company undertook a special transportation program to make Arctic Islands employment more accessible to northern residents and their complement increased to 24 men. By the end of December 1972, the number of northern residents employed was 36.

Although there was some turn-over at the start of the program, the new transportation arrangements, combined with interest shown by the Company's supervisors and the attitude of the northern employees, has resulted in a very satisfactory arrangement. Some have increased their job status and it is expected that several of these employees will be advanced into the semi-skilled trades during 1973.

Eskimos on Panarctic's Twin Otter en route from southern settlements to High Arctic work sites. Special transportation arrangements have enabled the Company to increase its Eskimo complement to twenty-five percent of its field personnel.

Left to right: Treasurer and Comptroller J. G. Armstrong; Manager Special Projects C. E. Hards; Chief Accountant D. W. Mayder.

FINANCIAL

In 1972, Panarctic significantly increased its exploration and drilling expenditures over previous years. In total $38,640,552 was expended during the year under the direct administration of the Panarctic staff. Of this amount, Panarctic participants provided $22,088,762, the Gas Development Agreement Group $7,600,698 and joint interest partners the remaining $8,951,092. On a cumulative basis Panarctic's shareholders have invested $62,300,000 in the exploration and drilling program. A further $6,360,000 has been invested in inventories of supplies and a net $5,266,000 in capital facilities to support the program in ensuing years.

The Company's 1971 Annual Report detailed the financing arrangement under the Gas Development Agreement with Tenneco Oil & Minerals, Ltd., Columbia Gas Development of Canada Ltd., Texas Eastern Canada Ltd. and Northern Natural Gas Company. Extensive exploratory drilling continued throughout 1972 under this agreement and by the end of December $14,300,000 of the $50,000,000 exploration drilling commitment of the gas company partners had been spent.

During 1972 Panarctic's shareholders approved changes in the Company's share capital which provide for a subdivision of each of the previously authorized and issued common shares into twenty no par value common shares. Holders of the Company's preferred shares were also granted the right to convert such shares into an equivalent number of common shares. All the preferred shareholders exercised this conversion right prior to the year end.

In the latter part of the year the participants agreed to a further capital expansion to provide funds for continuation of the program. A total commitment of $25,000,000 was made in consideration of the issuance of 2,500,000 common shares. The Government of Canada subscribed for 45% of these shares and committed to cash investments of $11,250,000. Panarctic's industry participants subscribed for the remainder and have committed for their share of the expansion to make additional exploration expenditures on company lands of $13,750,000. These funds, plus the unexpended portion of the previous capital expansion, will carry Panarctic's exploration and drilling program into 1974.

Early in 1973, the Company entered into an agreement with the Gas Development Agreement Group and Elf Oil Exploration and Production Canada Limited. Under this arrangement Panarctic and its four gas company partners will provide exploration funds and additional monies for required gas delineation and development drilling to earn a working interest in 16.1 million gross permit acres. The amounts committed by the earning parties are over an initial eighteen-month period and three successive two-year optional periods. The Company's undertaking for the initial period under this agreement is for $6,667,000 toward exploration costs and to a maximum of $4,167,000 for delineation drilling on gas discoveries arising from exploration. Panarctic's share of the funds committed in the first two periods to June 30, 1976, and for subsequent periods under certain circumstances, will be provided by its gas company partners from the funds committed to Panarctic under the Gas Development Agreement.

BALANCE SHEET
DECEMBER 31, 1972

ASSETS

	1972	1971
Current assets:		
Cash	**$ 89,767**	$ 33,437
Accounts receivable	**1,914,642**	1,054,831
Due from Panarctic Oil Operators Ltd.	**—**	623,440
Government of Canada cash grants to be made	**12,250,000**	8,000,000
Inventory of drilling supplies in the Arctic, at cost including freight	**6,360,793**	3,088,197
Prepaid insurance and sundry advances	**75,477**	23,468
	20,690,679	12,823,373
Investment in Alexbow Canada Ltd.:		
Shares, at cost	**51,000**	6
Advances	**166,618**	157,612
	217,618	157,618
Capital assets, at cost:		
Production and other equipment (Note 4)	**9,874,459**	7,143,463
Less: Accumulated depreciation	**4,607,804**	3,164,667
	5,266,655	3,978,796
Petroleum and natural gas permits	**276,388**	107,041
Exploration expenditures (Note 3)	**62,309,618**	45,010,658
	67,852,661	49,096,495
Other assets:		
Exploration and drilling expenditures to be incurred by Panarctic Syndicate	**15,849,946**	14,774,850
Advance to Panarctic Syndicate	**79,724**	229,214
	15,929,670	15,004,064
	$104,690,628	$ 77,081,550

LIABILITIES

		1972	1971
Current liabilities:			
Bank loan (secured)		**$ 2,150,000**	$ 200,000
Accounts payable and accrued liabilities		**1,291,136**	755,249
Due to Panarctic Oil Operators Ltd.		**123,191**	—
		3,564,327	955,249
Shareholders' equity:			
Share capital (Note 1) —			
Preferred shares —			
Authorized —			
7,600,000 6% non-cumulative redeemable convertible preferred shares of a par value of $10 each			
Issued —			
(1971 — 7,600,000 shares)		—	76,000,000
Common shares —			
Authorized —			
40,000,000 shares of no par value			
Issued —	Number of shares		
For an undertaking by the Government of Canada to make cash grants	15,795,000	45,506,250	56,250
For participants' exploration commitments	19,305,000	55,618,750	68,750
For cash	260,100	1,301	1,301
	35,360,100	101,126,301	76,126,301
Contingent liability (Note 6)			
		$104,690,628	$ 77,081,550

Approved on Behalf of the Board:

J. M. Taylor Director

Chas. K. Hetherington Director

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
Source of funds		
Issuance of capital stock (Note 1) —		
To the Government of Canada for an undertaking to make cash grants	**$ 11,250,000**	$ 11,700,000
To industry participants for exploration commitments	**13,750,000**	14,300,000
For cash	**—**	50
	25,000,000	26,000,050
Application of funds:		
Exploration expenditures	**17,298,960**	10,460,980
Less: Depreciation and other non-cash charges	**1,597,991**	1,175,711
	15,700,969	9,285,269
Purchase of capital assets (net)	**2,885,850**	1,763,082
Acquisition of petroleum and natural gas permits	**169,347**	38,057
Net increase in other assets	**925,606**	7,476,564
Advances to Alexbow Canada Ltd.	**60,000**	17,545
	19,741,772	18,580,517
Increase in working capital	**$ 5,258,228**	$ 7,419,533

STATEMENT OF EXPLORATION EXPENDITURES CAPITALIZED

TO DECEMBER 31, 1972

	YEAR ENDED DECEMBER 31		FROM INCEPTION TO DECEMBER 31
	1972	1971	1972
Geophysical	**$ 6,961,002**	$ 3,853,848	$17,780,843
Geological	**128,657**	143,341	902,532
Drilling	**7,652,200**	4,519,625	34,009,510
Administrative and general	**1,835,096**	1,474,319	6,359,601
Interest income	**(216,108)**	(178,848)	(666,573)
Administrative costs recovered	**(659,878)**	(437,475)	(1,097,353)
Depreciation	**1,597,991**	1,086,170	5,021,058
	$17,298,960	$10,460,980	$62,309,618

NOTES TO FINANCIAL STATEMENTS

December 31, 1972

1. SHARE CAPITAL:

During the year the Company altered its authorized capital by:

(a) subdividing each of the previously authorized 1,500,000 common shares without par value whether issued or unissued into 20 common shares without par value,

(b) adding to the rights, conditions and limitations attaching to the preferred shares of the Company of a par value of $10 each, the right of the holder to convert such shares before December 31, 1972 into common shares without par value on the basis of one common share for each preferred share so converted,

(c) the authorization of an additional 10,000,000 common shares without par value.

The following table sets out the changes in the issued common shares of the Company for the year ended December 31, 1972:

	Number of shares	Amount
Balance January 1, 1972	1,263,005	$ 126,301
Additional shares issued on the subdivision of outstanding shares on the basis of 20 common shares for each share issued	23,997,095	—
Conversion of all of the authorized and issued preferred shares into common shares on a 1 for 1 basis	7,600,000	76,000,000
Issuance of additional common shares —		
To industry participants in consideration for an undertaking to incur expenditures of $13,750,000 in the conduct of exploration operations on Company lands	1,375,000	13,750,000
To the Government of Canada in consideration for an undertaking to make cash grants aggregating $11,250,000	1,125,000	11,250,000
	35,360,100	$101,126,301

As at December 31, 1972, 40,000 common shares were reserved for issuance under the employees' share incentive plan.

2. INCOME TAXES:

By agreement the Company has undertaken that it will not claim for income tax purposes expenditures which would otherwise be deductible under the Income Tax Act until the aggregate amounts of such expenditures, together with 45% of the Company's non-deductible amounts, are equal to the cash grants made by the Government of Canada. The Company has also undertaken to waive forever all claim to a deduction in respect of such allowable deductions.

3. EXPLORATION EXPENDITURES:

The activities of the Company are in the exploratory stage and all expenses, less sundry income, have been capitalized, including exploration expenditures actually made by shareholders pursuant to the commitments referred to in Note 1; the Company is deemed to have earned no profit and sustained no loss and therefore no statement of profit and loss is submitted.

4. PRODUCTION AND OTHER EQUIPMENT:

	December 31, 1972			Net book value December 31, 1971
	Cost	Accumulated depreciation	Net book value	
Trucks and tracked vehicles	$2,731,829	$1,277,554	$1,454,275	$ 853,815
Aircraft	1,840,898	817,840	1,023,058	1,332,643
Storage facilities	1,813,381	678,347	1,135,034	711,372
Camp and portable buildings	1,221,651	714,058	507,593	331,667
Radio and navigational equipment	517,994	288,682	229,312	157,705
Barge	236,780	186,464	50,316	85,833
Furniture and office equipment	152,529	36,365	116,164	140,205
Other equipment	1,224,838	579,232	645,606	365,556
Leasehold improvements	134,559	29,262	105,297	—
	$9,874,459	$4,607,804	$5,266,655	$3,978,796

5. STATUTORY INFORMATION:

During 1972 there were twenty directors and nine officers (as defined by the Canada Corporations Act) of whom four were also directors.

No directors' fees were paid in 1972 or 1971. Officers' remuneration for 1972 and 1971 amounted to $160,640 and $156,000 respectively.

6. CONTINGENT LIABILITY:

The Company has issued promissory notes in the amount of $1,228,279 at December 31, 1972 to the Federal Goverment and to the Royal Bank of Canada with respect to its exploration program.

AUDITORS' REPORT

To the Shareholders of Panarctic Oils Ltd.

We have examined the balance sheet of Panarctic Oils Ltd. as at December 31, 1972 and the statements of exploration expenditures and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As explained in Note 3 to the financial statements the Company's activities are still in the exploratory stage and all expenses, less income, have been capitalized from inception to December 31, 1972. The Company is deemed to have realized no profit and sustained no loss to December 31, 1972 and therefore no profit or loss account is submitted.

Price Waterhouse & Co.

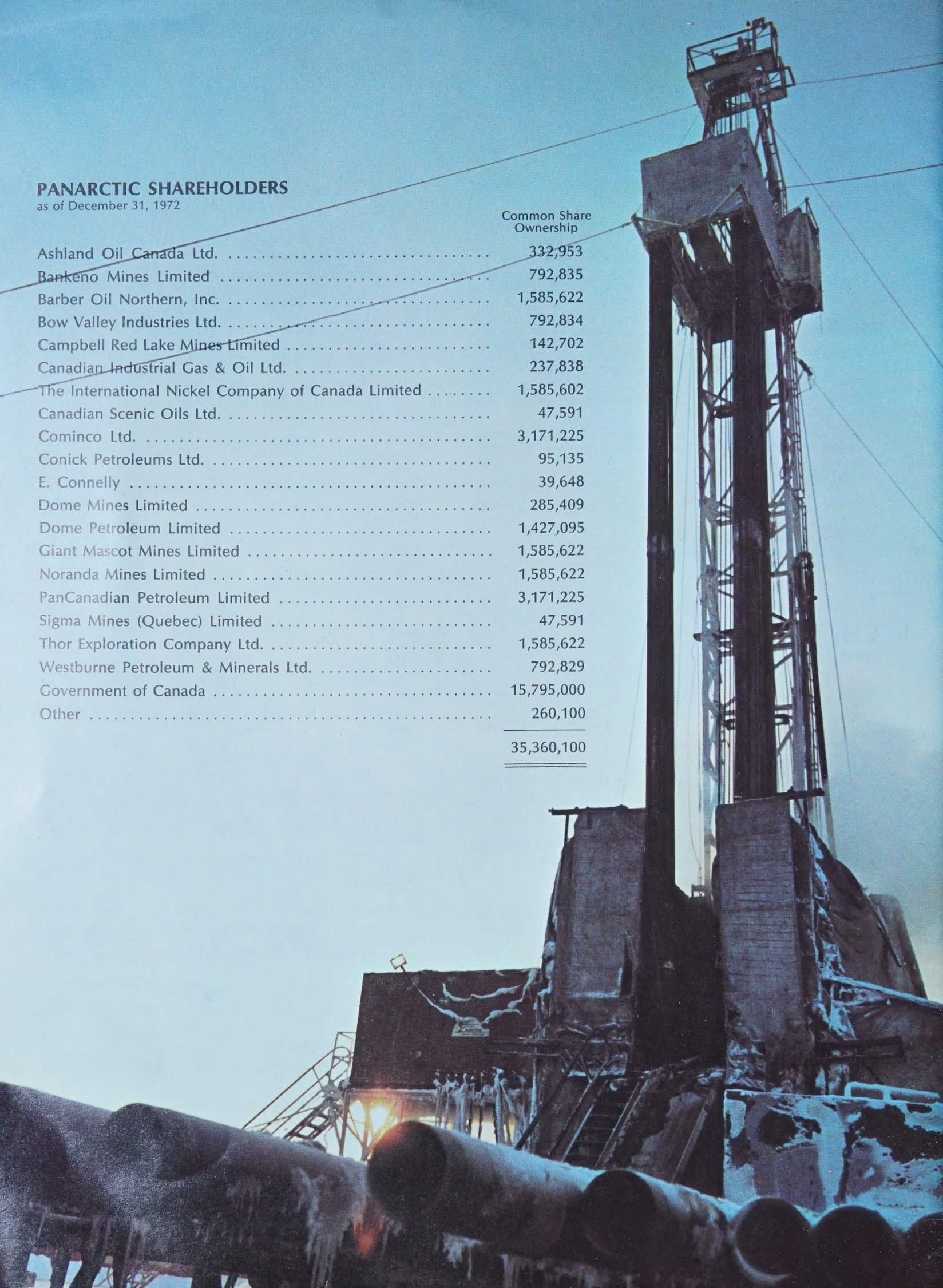
March 2, 1973

Chartered Accountants

PANARCTIC SHAREHOLDERS

as of December 31, 1972

	Common Share Ownership
Ashland Oil Canada Ltd.	332,953
Bankeno Mines Limited	792,835
Barber Oil Northern, Inc.	1,585,622
Bow Valley Industries Ltd.	792,834
Campbell Red Lake Mines Limited	142,702
Canadian Industrial Gas & Oil Ltd.	237,838
The International Nickel Company of Canada Limited	1,585,602
Canadian Scenic Oils Ltd.	47,591
Cominco Ltd.	3,171,225
Conick Petroleums Ltd.	95,135
E. Connelly	39,648
Dome Mines Limited	285,409
Dome Petroleum Limited	1,427,095
Giant Mascot Mines Limited	1,585,622
Noranda Mines Limited	1,585,622
PanCanadian Petroleum Limited	3,171,225
Sigma Mines (Quebec) Limited	47,591
Thor Exploration Company Ltd.	1,585,622
Westburne Petroleum & Minerals Ltd.	792,829
Government of Canada	15,795,000
Other	260,100
	35,360,100



PANARCTIC OILS LTD.

Incorporated May 27, 1966
by Federal Letters Patent

Head Office:
703 - 6th Avenue S.W.
Calgary, Alberta

OFFICERS

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Calgary, Alberta.

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Department of Public Works.
Ottawa, Ontario.

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Panarctic Oils Ltd.
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Calgary, Alberta.

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MacKimmie Matthews.
Calgary, Alberta.

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Deputy Minister
Department of Energy, Mines and Resources

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Dome Petroleum Limited

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Deputy Minister
Department of Public Works

MARKOOSIE
Arctic Aircraft Pilot

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General Solicitor and Assistant Secretary
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Cominco Ltd.

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